Jacob C. Alder

President, Alder Metrics LLC
544 S Lincoln St. #15
Bloomington, IN 47401
[redacted]

20 May 2022

Vanessa A. Countryman,
Secretary, Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

Sent by email to rule-comments@sec.gov

Re: SEC Proposed Mandatory Climate Risk Disclosures, File Number S7-10-22: The Enhancement and Standardization of Climate-Related Disclosures for Investors—Response to Discussion Question No. 173 and Proposed Item 1506, regarding Renewable Energy Credits

Dear Securities and Exchange Chair Gensler,

Alder Metrics LLC appreciates the opportunity to comment on the Securities and Exchange Commission (SEC) Proposed Rule (PR) "The Enhancement and Standardization of Climate-Related Disclosures for Investors," File Number S7-10-22, which includes a proposal to require disclosure of a registrant's use of carbon offsets or renewable energy credits (RECs), or both. This comment responds to PR Item 1506 "Targets and goals" and associated question prompt No. 173 from the discussion section. Alder Metrics LLC is an independent, sole-proprietor consulting firm in Bloomington, Indiana.

I acknowledge the extensive labor SEC staff has put into developing the PR. On its whole, the proposed objective will reduce information asymmetry and improve investor access to climate-aligned finance. The proposed disclosures will provide invaluable indicators about financial risks and encourage registrants and investors to be mindful of climate-related risks ahead.

I share Commissioner Hester Peirce's sentiment, "…Under these [climate risk disclosure] proposals, [Companies that have voluntarily disclosed climate risks] are going to be playing an entirely different game, at far higher stakes."[1] The stakes are indeed high—not just for climate-aligned businesses, but for all people. Practically the entire scientific academy, G-7 leaders, heads of multinational corporations and local businesses alike, and millions of investors across the world recognize that the consequences of climate change (and climate catastrophe) pose "far higher stakes" than any other challenge in our shared human history. I recognize the SEC at large shares this concern, and has thus developed the PR.

1

In light of these high stakes, I disagree with the level of reporting scrutiny the SEC proposes to apply to a popular form of clean energy accounting. Renewable energy credits (RECs) are, as defined in §229.1500(n), "a credit or certificate representing each megawatt-hour (1 MWh or 1,000 kilowatt-hours) of renewable electricity generated and delivered to a power grid." RECs grew in popularity as a method to meet state Renewable Portfolio Standards (RPS) over the past two decades. Unlike carbon offsets, however, RECs do not directly offset emissions, nor are they designed to. Given that they may *indirectly* contribute to reductions in greenhouse gas (GHG) emissions, they are often misconstrued. An organization does not actually need to reduce its own emissions to purchase RECs, but by purchasing RECs can indirectly claim the benefits of doing so. Despite the important role RECs play in development of renewable energy projects, the REC tracking and trading system in the U.S. has real drawbacks, especially insofar that it lacks federal standards and consistency (Koperski, 2017).

Clean energy advocates strongly prefer to see renewable energy (RE) displace fossil fuels in local communities, rather than mere purchase of out-of-state RECs to comply with a state's RPS mandate, or "greenwash" investors. As Dr. Benjamin Sovacool, a lead author of the Intergovernmental Panel on Climate Change's sixth report (AR6) summarized, RECs have created two categories of communities: those that benefit from the RE generation and those that buy the credits: "This can lock-in existing asymmetries where renewable-resource-rich regions become cleaner and healthier but renewable-resource-poor communities, which end up buying RECs, become worse off" (Sovacool, 2011). Similarly, an SEC registrant could purchase and report REC consumption, thereby signaling to investors a form of "environmental zeal" without changing its value chain.

RESPONSE TO DISCUSSION QUESTION 173[2]

The SEC prompted the following discussion question

> 173. If a registrant has used carbon offsets or RECs, should we require the registrant to disclose the amount of carbon reduction represented by the offsets or the amount of generated renewable energy represented by the RECS, the source of the offsets or RECs, the nature and location of the underlying projects, any registries or other authentication of the offsets or RECs, and the cost of the offsets or RECs, as proposed? Are there other items of information about carbon offsets or RECs that we should specifically require to be disclosed when a registrant describes its targets or goals and the related use of offsets or RECs? Are there proposed items of information that we should exclude from the required disclosure about offsets and RECs?

First, the SEC must emphasize the difference between carbon offsets and RECs. I recommend intentionally distinguishing them in each logical instance so as to not confuse their distinct objectives. Though the PR includes a reference to the EPA's 2018 publication "Offsets and RECs: What's the Difference?" in Footnote 236, I am concerned that because the SEC invariably uses the terms together, it will confuse registrants as to their unique purposes.

Second, "if a registrant has used carbon offsets or RECs," the SEC must acknowledge that the term "use" may vary according to jurisdiction, REC/offset registry, and even individual entity. In many cases, an entity may *purchase* and *retire* either carbon offsets or RECs or both to meet mandatory compliance in a state. Thirty-six states have RPS targets; the rigor of these goals, however, varies widely. On the more stringent end, Washington committed to greenhouse gas-free electricity by 2045. Through December 31, 2044, "utilities may use RECs to meet up to twenty percent of their

[2] https://www federalregister.gov/d/2022-06342/p-1485

[RPS] compliance obligation."[3] In most REC registries, an entity must *purchase* and *retire* a REC in order to deem it "used" for compliance. The term "use" on its face, does not seem ambiguous, yet its appearance in the previous quotation of Washington's Clean Energy Transition Act has generated nearly two years of substantiative debate.

Third, the SEC's proposed disclosure requirement of "the amount of carbon reduction represented by the offsets" makes sense, given that carbon offsets do not have a definite unit size. Disclosure of "the amount of generated renewable energy represented by the RECS(sic)" does not make sense, since a REC, by definition, includes the amount of generated renewable energy; e.g., if Alder Metrics LLC purchases and retires 200 RECs, it has purchased and retired the equivalent of 200 * 1 MWh, or 200 MWh of renewably generated electricity.

Fourth, requirement to disclose "the source of the offsets or RECs, the nature and location of the underlying projects, any registries or other authentication of the offsets or RECs," may present an undue burden for a registrant. Depending on the marketplace, registry, and the company's location, these data may not be available. As noted in Professor Sovacool's quotation above, RECs enable purchasers to disconnect their carbon reduction strategies from their physical production locations. If Alder Metrics LLC, in Bloomington, Indiana, purchases 200 RECs from an online marketplace based in Colorado, the seller may transfer the credits without specifying the point source generation of the RECs. Furthermore, given the sheer complexity of the electricity system, Alder Metrics LLC will almost certainly be unable to accurately identify where the RECs were generated. However, on its SEC's 10-K form,[4] Alder Metrics LLC would undoubtedly claim that it had a "dirty energy balance sheet" of 0 MWh. In reality, it consumed 200 MWh of coal-generated electricity and changed none of its value chain, other than the purchase (potentially out-of-state) RECs.

Finally, disclosure of "the cost of the offsets or RECs, as proposed" will likely aid investors only if the SEC also requires disclosure of *why* the registrant purchased the RECs. For example, under the PR, if Alder Metrics LLC was subject to a state RPS law, it could signal to investors in its SEC 10-K or S-K form it purchased RECs, *without* noting it did so to meet mandatory compliance targets.[5] This is like telling my friends I check my car's emissions every year, but not telling them I live in a state that requires me to do so (or otherwise pay a fine). The partial truth may lead my friends to overestimate my environmental zeal.

CHANGES TO § 229.1506 (6)(D) TO CLARIFY VOLUNTARY VS. MANDATORY COMPLIANCE

The SEC should neither direct nor entice registrants/investors to pursue certain targets. Reporting forms should contain precise language to ensure consistent interpretation among registrants and investors. As currently outlined, the SEC's ambiguous inclusion of carbon offsets and RECs and may generate unintended consequences. If the SEC proceeds with its proposed intent to require reporting both carbon offsets and RECs, despite the aforementioned concerns, I propose the following modifications:

§ 229.1506 (6)(d) If **the registrant has purchased either** carbon offsets or RECs **or both** ~~have been used~~ **to meet mandatory compliance targets or** as part of ~~a registrant's~~ **its** plan to achieve climate-related targets or goals, **or both,** disclose the **following:**

[3] Rev. Code Wash. RCW 19.405.040(b)

[4] Alder Metrics LLC does not, and is not required to report to the SEC. The use of the name is merely illustrative.

[5] Alder Metrics LLC is not subject to an RPS law, nor does it have investors. The use of the name is merely illustrative.

(a) The number of carbon offsets purchased and the amount of carbon reduction represented by the **purchase(s),** ~~offsets~~

(b) The ~~or the amount of generated renewable energy represented by the~~ **number of** RECS~~S~~**s purchased and the amount of renewable energy represented by the purchase(s)**,

(c) T~~t~~he source of the **carbon** offsets **(e.g. "forest restoration"), if known, and** ~~or RECs,~~ a description and location of the underlying project(s) **if known**,

(d) The ~~any~~ registr**y**(ies) ~~or other authentication of the offsets or~~ **through which the** RECs **were tracked and retired**,

(e) ~~and~~ **T**~~t~~he **combined purchase price** ~~cost~~ of **all** the **carbon** offsets or RECs **or both**.

(f) Whether the RECs were purchased and retired to meet mandatory compliance (e.g., a state's renewable portfolio standard); if yes, the number of RECs retired to meet compliance.

The above changes delineate the difference between carbon offsets and RECs. The changes also enumerate the SEC's various items, previously a single paragraph, in a concise list. The addition of whether the RECs were "purchased and retired" as opposed to a more amorphous "use" standardizes the interpretation of how a registrant engages with RECs or carbon offsets, or both. Finally, the addition of item (f) allows a registrant to identify why it purchases and retires RECs. This addition will reduce virtue signaling to investors.

CONCLUSION

I recognize the SEC's objective to aid investors by providing a synthesized report on climate risk disclosures. I express concern that current REC markets and tracking systems need improvement, including federal standards to ensure consistency. The Commission guarantees the continued importance of carbon offsets and RECs in company carbon reduction and clean energy goals by eternalizing them in its reporting forms. This may, or may not be a desirable outcome, but I am not commenting on that broader question. I believe my adjustments to §1506(6)(d) will improve both a registrants' and an investor's interpretation of the various complicated terms.

Thank you for the opportunity to offer comments on the Proposed Climate-Risk Disclosure Rule. I hope you find my comments useful.

Sincerely,

/s/ Jacob C. Alder
President
Alder Metrics LLC

REFERENCES

Koperski, L., 2017. Why the Renewable Energy Credit Market Needs Standardization. Wash. J L Tech 41.

Sovacool, B.K., 2011. The policy challenges of tradable credits: A critical review of eight markets. Energy Policy 39, 575–585. https://doi.org/10.1016/j.enpol.2010.10.029